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SUBJECT: USD 1 BILLION CHINESE LOAN FOR MOLDOVA

Sensitive but not classified. Please protect accordingly.

1. (SBU) Summary: On July 23, Moldova's Minister of Construction and Territorial Development and the president of Covec signed a memorandum of understanding for a USD 1 billion loan. Some news about this loan had circulated earlier, as Moldovan press noted in early February that China's largest construction company, Covec, announced a possible 15-year, one-billion dollar loan for Moldova. This loan would hold particular significance as the IMF and Government of Moldova (GOM) were unable to come to terms on a new agreement in June as the economic crisis hit Moldova harder. With repeat parliamentary elections set for July 29, the GOM was not willing to implement the policies an IMF agreement had required in the period leading up to elections. Moldova sought other sources of financial support. Russian Prime Minister Putin announced a USD 500 million loan to Moldova on June 22. End Summary.

THE DISCUSSION OF A CHINESE LOAN BEGINS

2. (SBU) Initial reports of a potential loan from China appeared in the Moldovan press in early February. The first public discussion of the loan arose during a video conference at the Novosti news agency in Chisinau. The Covec representative in Moldova, Ruslan Barladeanu, stated in an interview with the weekly Ekonomicheskoe Obozrenie that China was prepared to offer the loan for 15 years at three percent with a five year grace period. According to Barladeanu, China would offer the funds for infrastructure projects and the construction of manufacturing facilities. Several media noted the development but gave it limited attention. For example, an interview with Barladeanu in Ekonomicheskoe Obozrenie appeared on page 16.

THE IMF AND THE RUSSIAN LOAN

3. (SBU) Moldova's IMF agreement ended in May and an IMF mission visited Moldova from May 28 to June 8 to negotiate a new arrangement. Following unproductive discussions with GOM officials, the mission departed without a new agreement. With a dire budget crisis and with GDP projected to decline nine percent in the current year according to the IMF, the GOM sought funding through other sources. Neither other IFIs nor bilateral agreements were options for support as long as there was not a new agreement with the IMF. Russian Prime Minister Vladimir Putin announced a USD 500 million loan to Moldova during acting President Voronin's visit on June 22. The first tranche of USD 150 million would supposedly be available in 2009. Upon returning from Moscow, Voronin had noted that the GOM was seeking similar loans from China.

THE MEMORANDUM OF UNDERSTANDING WITH COVEC

14. (SBU) On July 23, Moldova's Minister of Construction and Territorial Development, Vladimir Baldovici, and the president of Covec, Fang Yuanming, signed a memorandum of understanding for a USD 1 billion loan. Local press reported that discussions would follow regarding the terms of the loan. Baldovici stated, as had been reported in February, that the loan would be for 15 years at three percent with a five year grace period. He noted that negotiations on the final terms and parliamentary approval would take about four months. The initial tranche could arrive in Moldova by the end of the year, he added. Moldova would focus on road construction, energy production, treatment plants, the industrialization of agriculture, and the construction of production facilities for high tech products with the funds. He added that Moldovan workers would provide most of the labor force for the projects.

COMMENT

15. (SBU) The signing of the memorandum of understanding took place six days before the parliamentary elections of July 29. It was widely believed that the loan announcement was meant as an electoral boost to help the image of the ruling Party of Communists of the Republic of Moldova (PCRM). (Note: In the election, the Party of Communists went from a majority of 61 in the 101 seat Parliament to a plurality of 48, against a combined opposition of 53. Voronin remains Acting President until 61 MPs can be found to vote for a successor. End note.) Although the amount of the loan is huge for Moldova, the PCRM elected to have the Minister of Construction and Territorial Development sign on behalf of the GOM. Neither acting President Vladimir Voronin nor Prime Minister Zinaidii Greceanii showed up - this could be because they considered the moneys unlikely to actually appear. Alternatively, it is also possible that both of them were being careful not to give the opposition or

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the international community any chance to accuse them of capitalizing on the event just before elections. We suspect that Moldova many never actually see these funds.

16. (SBU) Acting President Voronin's grandson, Alexei Voronin, began work in the Republic of Moldova's Embassy in Beijing in September 2006 following his graduation from Johns Hopkins University. The Moldovan Ambassador to China, Iacov Timciuc, is considered a good friend of the Acting President. Timciuc left Beijing in April 2009 and in July 2009 Alexei Voronin was named Charge d'Affaires. There is speculation that the grandson has helped Moldova forge closer ties with China.

17. (SBU) The international press speculated that China may be offering such loans as a means to both increase their influence overseas and to boost domestic demand by exporting Chinese equipment and Chinese expertise. The Chinese government is likely concerned about domestic migrant workers arriving in its cities seeking jobs and the unrest unemployment could cause. Local experts speculate that the Russian loan might depend on whether the PCRM is able to stay in the government. Likewise, the Chinese loan will depend on the composition of a new government and whether it turns eastward or westward.

CHAUDHRY